

**UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION**

Avista Corporation,

Bonneville Power Administration,

Idaho Power Company,

The Montana Power Company,

Nevada Power Company,

PacifiCorp,

Portland General Electric Company,

Puget Sound Energy, Inc.,

Sierra Pacific Power Company

Docket No. RT01-35-\_\_\_\_

**STAGE 2 FILING AND  
REQUEST FOR DECLARATORY ORDER  
PURSUANT TO ORDER 2000**

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**A. Introduction.**

In compliance with Order 2000<sup>1</sup> and pursuant to Rule 207(a)(2) of the Federal Energy Regulatory Commission's (the "Commission") Rules of Practice and Procedure, 18 C.F.R. § 385.207(a)(2) (2000), the undersigned parties<sup>2</sup> (referred to in this filing as the

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<sup>1</sup> *Regional Transmission Organizations*, Order No. 2000, 65 Fed. Reg. 809 (Jan. 6, 2000), FERC Stats. & Regs. ¶ 31,089 (1999), *order on reh'g*, Order No. 2000-A, 65 Fed. Reg. 12,088 (Mar. 8, 2000), FERC Stats. & Regs. ¶ 31,092 (2000), *aff'd sub nom. Pub. Util. Dist. No. 1 of Snohomish Cty., WA v. FERC*, Nos. 00-1174, et al. (D.C. Cir. 2001).

<sup>2</sup> The parties participating in this filing are Avista Corporation ("Avista"); Bonneville Power Administration ("Bonneville"); British Columbia Hydro and Power Authority ("B.C. Hydro"); Idaho Power Company ("Idaho Power"); Nevada Power Company ("Nevada Power"); NorthWestern Energy, L.L.C. (continued)

“filing utilities”) submit this Stage 2 Filing and Request for Declaratory Order Pursuant to Order 2000. This filing is intended to provide all remaining information necessary for the Commission to issue a declaratory order concerning the filing utilities’ proposal to form a regional transmission organization known as “RTO West.” Because of the significance of this filing in setting the course for RTO West’s development, the filing utilities request that the Commission extend the period allowed for interventions and comments from the usual 30 days to 60 days.

All communications, correspondence, documents, or other materials concerning this filing should be addressed to the following recipients:

For Avista Corporation:

Randall O. Cloward  
Director, Transmission Operations  
Avista Corporation  
1411 E Mission Avenue  
PO Box 3727  
Spokane, WA 99220-3727

Gary A. Dahlke  
Paine Hamblen Coffin Brooke & Miller LLP  
717 W Sprague, Suite 1200  
Spokane, WA 99201

For the Bonneville Power Administration:

Mark W. Maher  
Senior Vice President  
Transmission Business Line  
Bonneville Power Administration  
905 NE 11th Avenue  
PO Box 491-T/Ditt2  
Vancouver, WA 98666-0491

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(“NorthWestern”), formerly the Montana Power Company; PacifiCorp; Portland General Electric Company (“PGE”); Puget Sound Energy, Inc. (“Puget”); and Sierra Pacific Power Company (“Sierra Pacific”).

Stephen R. Larson  
Office of General Counsel - LT  
Bonneville Power Administration  
905 NE 11th Avenue  
PO Box 3621  
Portland, OR 97208

For British Columbia Hydro and Power Authority:

Yakout Mansour  
Vice President, Grid Operations and Interutility Affairs  
B. C. Hydro (Burnaby Mountain)  
6911 Southpoint Drive  
Burnaby, BC V3N 4X8  
Canada

Paul W. Fox  
Bracewell & Patterson, L.L.P.  
111 Congress Avenue, Suite 2300  
Austin, TX 78701

For Idaho Power Company:

James L. Baggs  
General Manager, Grid Operations and Planning  
Idaho Power Company  
1221 W. Idaho Street  
PO Box 70  
Boise, ID 83707

Malcolm McLellan  
Van Ness Feldman, PC  
821 Second Avenue, Suite 2000  
Seattle, WA 98104-1519

For Nevada Power Company or Sierra Pacific Power Company:

Carolyn Cowan  
Director, Transmission Planning and Business Development  
Nevada Power Company  
Sierra Pacific Power Company  
6100 Neil Road  
PO Box 10100  
Reno, NV 89703-0024

Mark Backus  
Associate General Counsel  
Nevada Power Company  
Sierra Pacific Power Company  
6226 West Sahara Avenue  
PO Box 230  
Las Vegas, NV 89151-0001

For NorthWestern Energy, L.L.C.:

Ted D. Williams  
Director, Transmission Marketing  
NorthWestern Energy, L.L.C.  
40 E. Broadway  
Butte, MT 59701

Marjorie L. Thomas, Esq.  
NorthWestern Energy, L.L.C.  
40 E. Broadway  
Butte, MT 59701

For PacifiCorp:

John Carr  
Managing Director, Major Projects  
PacifiCorp  
825 NE Multnomah Boulevard  
Portland, OR 97232

Pamela L. Jacklin  
Stoel Rives LLP  
900 SW Fifth Avenue, Suite 2600  
Portland, OR 97204-1268

For Portland General Electric Company:

Stephen R. Hawke  
Vice President, System Planning and Engineering  
Portland General Electric Company  
One World Trade Center, 17th Floor  
121 SW Salmon Street  
Portland, OR 97204

V. Denise Saunders, P.C.  
Portland General Electric Company  
One World Trade Center, Suite 1301  
121 SW Salmon Street  
Portland, OR 97204

For Puget Sound Energy, Inc.:

Kimberly Harris  
Vice President, Regulatory Affairs  
Puget Sound Energy, Inc.  
PO Box 98009-0868  
Bellevue, WA 98009-0868

Eric Todderud  
Heller Ehrman White & McAuliffe, LLP  
200 SW Market Street, Suite 1750  
Portland, OR 97201

**B. Executive Summary.**

With this Stage 2 filing, the filing utilities intend to enable the Commission to make a complete determination as to whether the RTO West proposal fulfills all of the characteristics and functions required for status as a regional transmission organization under Order 2000. Included with this filing are a revised RTO West Transmission Operating Agreement; amended Bylaws of RTO West; lists of transmission facilities the filing utilities propose to include in RTO West; and descriptions of proposals for RTO West's initial pricing methodology, congestion management system, ancillary services approach, market monitoring plan, and planning and expansion process. These documents, together with materials submitted in the filing utilities' Stage 1 filing and additional information set forth in Sections F and G, explain how the RTO West proposal satisfies the Commission's requirements under Order 2000 for a regional transmission organization. The filing utilities have also included, for informational purposes, a draft Scheduling Coordinator Agreement and related background documents, a draft



Agreement Among RTO West and Transmission Owners to Use Paying Agent, and an illustrative RTO implementation plan summary.

Much work remains to move from the conceptual proposal set forth in this filing to a fully operational RTO West. The filing utilities recognize that this work must include the development and submission of filings to the Commission under Sections 203 and 205 of the Federal Power Act, such as a proposed tariff for RTO West. These tasks will be based not only on the Commission's grant of the declaratory relief sought in this filing, but on subsequent approvals the filing utilities must seek internally and from those with regulatory or other legal jurisdiction, as well as fulfillment of applicable statutory requirements.

Throughout the development of this Stage 2 filing, the filing utilities have endeavored to facilitate participation by a broad range of stakeholders. This proposal reflects the complex issues and unique challenges that characterize the region RTO West will serve. It strikes a balance that promotes efficiency and equity, while satisfying the requirements of Order 2000 in a manner that honors fundamental principals guiding the filing utilities since Stage 1.

The Transmission Operating Agreement submitted with this filing has been revised to reflect the significant developments during Stage 2 with respect to pricing and congestion management, as well as refinements in other areas such as market monitoring and planning and expansion. The filing utilities have also carried out the Commission's instructions, issued in its July 12, 2001 order in Docket No. RT01-35, concerning how RTO West and its Participating Transmission Owners might limit and allocate liability related to the operation of transmission facilities and the provision of transmission

services. The draft Bylaws for RTO West have been similarly revised to reflect Commission guidance in previous orders, as well as to add helpful clarifications and other improvements.

The pricing proposal included with this filing is in many respects similar to the approach from Stage 1, but the mechanism to recover embedded system costs previously covered by short-term and non-firm transmission service revenues (which are eliminated under the initial pricing structure proposed for RTO West) has been modified. Under the Stage 2 proposal, RTO West will establish target replacement revenues to be recovered through fees applied to schedules with delivery points at the external interfaces of the RTO West system, as well as any net surplus generated through RTO West's congestion management process.

The Commission found on the basis of the filings submitted in Stage 1 that the independence and scope and regional configuration of RTO West were in compliance with Order 2000 (subject to certain minor modifications). The filing utilities request that the Commission confirm this finding. The filing utilities demonstrate in this Stage 2 filing that the remaining characteristics and functions with respect to which the Commission has not yet made a determination have now been fulfilled.

An essential first step to the filing utilities undertaking additional steps to move forward with RTO West is the Commission's grant of declaratory relief as requested in this filing. This will enable the filing utilities to begin additional tasks necessary to fulfill important conditions and obtain other requisite approvals. The filing utilities have included an illustrative implementation plan summary to provide the Commission with a sense of the range of activities, sequencing, and interrelationships that bear on RTO West

implementation. The filing utilities intend to file a detailed plan, including specific timelines, within 60 days of this filing.

The Commission should find that the RTO West proposal, as completed through this Stage 2 filing, is fully compliant with the requirements of Order 2000. This will provide the foundation upon which further efforts can build.

### **C. Nature of Filing.**

#### **1. Procedural Background**

The filing utilities have submitted a number of filings to the Commission in Docket No. RT01-35. Stage 1 of the filing utilities' proposal consisted of three filings. On October 16, 2000, the filing utilities submitted an Alternative Filing Pursuant to Order 2000. On October 23, 2000, the filing utilities submitted a Supplemental Compliance Filing and Request for Declaratory Order Pursuant to Order 2000 (the "October 23, 2000 Filing"). On December 1, 2000, subsets of the filing utilities separately filed a Concurring Utilities' Amended Supplemental Compliance Filing and Request for Declaratory Order Pursuant to Order 2000<sup>3</sup> and an Amended Supplemental Compliance Filing and Request for Declaratory Order Pursuant to Order 2000.<sup>4</sup> Together, the previous filings (referred to collectively in this filing as the "Stage 1 RTO West Proposal Filings") made up the initial stage (Stage 1) of the filing utilities' work to develop a proposal that would comply with the requirements of Order 2000.

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<sup>3</sup> This filing was submitted by Avista, Bonneville, Idaho Power, Montana Power (now NorthWestern), PacifiCorp, and Puget.

<sup>4</sup> This filing was submitted by PGE, Nevada Power, and Sierra Pacific.

On April 26, 2001, the Commission issued an order granting, with modification, the filing utilities' requests for declaratory orders submitted in the Stage 1 RTO West Proposal Filings. Order Granting, With Modification, RTO West Petition for Declaratory Order and Granting TransConnect Petition for Declaratory Order, 95 FERC ¶ 61,114 (2001) (the "April 26, 2001 Order"). The April 26, 2001 Order included the Commission's determination that, subject to minor modifications to the RTO West proposed Bylaws and Transmission Operating Agreement, the Stage 1 proposal elements for RTO West satisfied Order 2000's required characteristics of independence and scope and regional configuration. 95 FERC ¶ 61,114, at 61,328.

The April 26, 2001 Order also addressed a proposal by several of the filing utilities to form TransConnect, LLC and TransConnect Corporate Manager, Inc. ("TransConnect"), an independent transmission company that would own or manage transmission assets. The April 26, 2001 Order found that with minor modifications to its governance, TransConnect would be independent and could share certain functions with RTO West, subject to more detailed proposals concerning that sharing.<sup>5</sup> *Id.* at 61,338-39, 61,341.

Following the April 26, 2001 Order, numerous parties, including some of the filing utilities, submitted various requests for rehearing and clarification. On May 29, 2001, all of the filing utilities submitted a Petition for Rehearing and Clarification. Also on May 29, 2001, PacifiCorp and Idaho Power submitted a separate Petition for

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<sup>5</sup> On November 13, 2001, TransConnect made a filing with the Commission in Docket Nos. RT01-15-002 and ER02-323-000 that included, among other things, proposed innovative and incentive rate treatments and a *pro forma* planning protocol. That filing was protested and is currently pending before the Commission.

Rehearing and Clarification of the Commission's Directive Concerning Incentive-Based Rate Recovery on Behalf of Idaho Power Company and PacifiCorp.

On July 12, 2001, the Commission issued another order in Docket No. RT01-35 in response to requests for rehearing and clarification of its April 26, 2001 Order. Order Granting Rehearing in Part and Granting Clarification, in Part, 96 FERC ¶ 61,058 (2001) (the "July 12, 2001 Order").

The filing utilities made two filings in response to the portions of the Commission's July 12, 2001 Order addressing their Stage 1 liability proposal: the RTO West Filing Utilities' Response to July 12, 2001 Order (filed July 25, 2001) and a Motion for Clarification or, in the Alternative, Petition for Rehearing of the RTO West Filing Utilities (filed August 13, 2001).

On September 12, 2001, the Commission responded to the filing utilities' July 25, 2001 and August 13, 2001 filings with an Order Granting Clarification of Prior Order, 96 FERC ¶ 61,265 (2001). This order clarified that it was premature to require the filing utilities to make a compliance filing in response to the July 12, 2001 Order.

On December 1, 2001, subsets of the U.S. filing utilities (together with B.C. Hydro,<sup>6</sup> which joined the RTO West development effort as a filing utility on July 17, 2001) made two separate status report filings to the Commission, in accordance with the terms of the Commission's April 26, 2001 and July 12, 2001 Orders. Avista, Bonneville, B.C. Hydro, Idaho Power, Montana Power (now NorthWestern), PacifiCorp, and Puget

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<sup>6</sup> The Commission's October 6, 2000 Notice Providing Further Details on Procedures For Order No. 2000 Filings in Regional Transmission Organizations, Docket No. RM99-2-000, permitted non-public utilities such as B.C. Hydro to join in an RTO filing without jeopardizing their nonjurisdictional status. 93 FERC ¶ 61,018 (2000).

filed a Status Report Concerning RTO West Development. Nevada Power, PGE, and Sierra Pacific filed a Status Report Concerning the Framework for Formation of a West-Wide RTO and Resolution of Seams Issues. Various members of the filing utilities also have responded to general Commission issuances by submitting comments filed under Docket No. RT01-35, among others.<sup>7</sup>

2. Further Work and Sequence of Approvals Needed To Implement RTO West Proposal

With this Stage 2 filing, the filing utilities wish to enable the Commission to make a complete determination as to whether the RTO West proposal fulfills all of the characteristics and functions required for status as a regional transmission organization under Order 2000. The filing utilities recognize, however, that the Commission's approval of this Stage 2 filing will not complete the development process with respect to RTO West. The filing utilities must obtain additional approvals, and substantial work is needed to develop further filings to the Commission under Sections 203 and 205 of the Federal Power Act.

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<sup>7</sup> See, e.g., Supplemental Comments of Avista Corporation, PacifiCorp, and Puget Sound Energy, Inc. on Wholesale Market Activities filed December 7, 2001 and Comments on Wholesale Market Activities Submitted by Portland General Electric Company, Sierra Pacific Power Company, Nevada Power Company, and the Montana Power Company (now NorthWestern) filed December 7, 2001. These comments were filed in response to the Commission's Notice Inviting Comments on Wholesale Market Activities, Docket No. RM01-12 (November 20, 2001).

Chief among the documents that must be filed with and accepted by the Commission under Section 205 before RTO West can begin commercial operations is a tariff. The filing utilities acknowledge the Commission's current activities related to the development of a new *pro forma* open access transmission tariff for jurisdictional utilities and regional transmission organizations, which must shape efforts to develop a tariff for RTO West. At the same time, aspects of the proposal for RTO West that differ from the Commission's vision for a single market design must be reflected in the RTO West tariff. Given the importance of RTO West tariff provisions from a stakeholder perspective (and, in particular, elements of the RTO West tariff such as the Generation Integration Agreement, Load Integration Agreement, and Scheduling Coordinator Agreement), the filing utilities intend that further work in these areas will be conducted through a collaborative public process.

The filing utilities also intend that, well before the initiation of commercial operations, key elements of the RTO West market design (particularly as they relate to congestion management and provision of ancillary services) will be submitted to a rigorous, independent testing and validation process. This testing and validation will be designed to harmonize with the Commission's preference for structural solutions to mitigate market power. To the extent that any market power problems cannot be mitigated through structural solutions, appropriate consideration will be given to specific behavioral measures as approved by the Commission.<sup>8</sup>

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<sup>8</sup> The provisions of Sections 6.7.7 and 6.7.9 of the RTO West Transmission Operating Agreement, Attachment A (the "Transmission Operating Agreement"), provide RTO West with authority to address establishment of market power and price mitigation mechanisms. It is Bonneville's position that the Commission has no jurisdictional authority over Bonneville's power sales or generation activities, other than the limited authority described in the Northwest Power Act over Bonneville's power rates. Bonneville (continued)

If the Commission approves the RTO West proposal as submitted in this filing (together with the elements of the RTO West proposal previously approved in the April 26, 2001 Order), the filing utilities<sup>9</sup> will need to seek approvals required under state laws and regulations. The filing utilities do not expect that necessary state authorizations will be granted until the Commission has approved the RTO West proposal. The filing utilities urge the Commission to consult with the state regulatory commissions in Idaho, Montana, Nevada, Oregon, Utah, Washington, and Wyoming in responding to this filing.

Once the Commission has given its approval, those filing utilities that must receive state commission approval will promptly initiate the necessary regulatory processes.<sup>10</sup> Bonneville will also continue its public involvement and complete its environmental review processes, and consultations with federal authorities and the

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is unwilling to indirectly grant authority to the Commission as a function of executing the Transmission Operating Agreement, although Bonneville agrees that all market participants should be governed by market power or price mitigation limitations in order to ensure effective market control. Bonneville will continue to work with the other filing utilities to negotiate a proposal to participate in the market power or price mitigation programs of RTO West on the same terms and conditions as other Participating Transmission Owners, but in a manner that fits within Bonneville's legal structure, retaining its ability to carry out its statutory and environmental obligations. Bonneville must also negotiate an agreement with the other filing utilities with respect to the dispute resolution and enforcement mechanisms to enforce the provisions of such programs.

<sup>9</sup> The balance of this section refers to the steps anticipated by the U.S. filing utilities. The precise steps that will be required for B.C. Hydro to participate with RTO West will depend on the results of the review described in Section F.2.a and on the form of participation that is ultimately available to B.C. Hydro. Any form of participation by B.C. Hydro will require approvals of B.C. Hydro's board of directors, an acceptable arrangement between B.C. Hydro or an Independent Operator (as described in Section 4 of the Transmission Operating Agreement) and RTO West, and the approval of applicable provincial and federal regulatory authorities in Canada.

<sup>10</sup> Nevada Power, PGE, and Sierra Pacific cannot commit to seek approval from their state commissions until they understand how the Commission's ruling on the Application of TransConnect, LLC for Preliminary Approval of Transmission Rates, Including Innovative Transmission Rate Treatment; Planning and Expansion Protocol; Compliance Filing; and Modified Governance Proposal (filed November 13, 2001) might affect their ability to participate in a regional transmission organization. Avista and others may require management review of a fully completed filing before it is submitted for state authorization. Subject to that condition, the filing utilities intend to proceed with necessary state filings.



Northwest Congressional Delegation, all of which are necessary for the Bonneville Administrator to make a decision about whether to execute the Transmission Operating Agreement. Two of Bonneville's major criteria for making this decision will be whether a mature cost-benefit study of RTO West shows net benefits for the region and whether the proposed cataloguing of pre-existing transmission service rights can be accomplished effectively and efficiently.

The filing utilities also intend to submit coordinated filings to amend their current open access transmission tariffs to provide that, after a specified date, all new transmission service will be subject to the right to convert to RTO West service when RTO West begins operation (at the election of either the transmission customer or the transmission provider). The filing utilities expect to submit these filings within 60 days after the Commission's order providing the declaration requested in this filing or the Commission's ruling on the Application of TransConnect, LLC for Preliminary Approval of Transmission Rates, Including Innovative Transmission Rate Treatment; Planning and Expansion Protocol; Compliance Filing; and Modified Governance Proposal (filed November 13, 2001), whichever is later.

If the state commissions from which a filing utility must seek approval for participation in RTO West provide the requested approvals (including, but not limited to, cost recovery and, as necessary, transfer of control), that filing utility will then begin to prepare any required Section 203 and Section 205 filings and seek any necessary final approvals from its board of directors.

State, federal, and board approvals may result in all or less than all of the filing utilities proceeding with implementation of RTO West.<sup>11,12</sup> The filing utilities believe that Bonneville's participation is central to the viability of RTO West as a regional transmission organization.<sup>13</sup> Once Bonneville's decision to participate is ensured and the other filing utilities have obtained necessary board and governmental approvals, the filing utilities will each then execute (together in a simultaneous "closing" process) an RTO West Transmission Operating Agreement. The filing utilities' present intention is to proceed to implement RTO West so long as at least two additional filing utilities with transmission systems that are contiguous with Bonneville's have received the necessary approvals.

Upon execution of the RTO West Transmission Operating Agreement, those filing utilities that are required to file with the Commission under Sections 203 and 205 of the Federal Power Act will proceed with those filings. The filing utilities also intend to file with the Commission to modify their open access transmission tariffs to provide a

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<sup>11</sup> Because of the potential unavailability of liability insurance for service outages and the complexity of exercising termination rights under the RTO West Transmission Operating Agreement (due in large part to the congestion management model proposed for RTO West), Avista and possibly other filing utilities may not be able to proceed with RTO West if tariff or legislative limitations of RTO West liability are not adopted. Also, the extent of exposure of RTO West to liability judgments significantly increases because the protections available to Bonneville under the Federal Tort Claims Act will likely be unavailable to RTO West. This increased tort-liability exposure threatens the ability of RTO West to provide net benefits to the region.

<sup>12</sup> A benefit-cost study has been undertaken by RTO West in an effort to quantify the impacts of RTO West implementation on the region. While the study continues to be refined, initial results show that the benefits exceed the costs for the RTO West area when viewed in the aggregate. The study also indicated, however, that the costs are likely to exceed the benefits for customers in Montana. This outcome is consistent with results of the Commission's recently completed benefit-cost study. As a result, NorthWestern's ultimate participation in RTO West is uncertain.

<sup>13</sup> The October 23, 2000 Filing describes in detail the unique considerations related to Bonneville's participation in RTO West, as well as the provisions in the RTO West Transmission Operating Agreement that have been included to facilitate Bonneville's participation. See October 23, 2000 Filing at 46-51.

one-time opportunity, before RTO West begins commercial operations, for transmission customers to exercise certain rollover rights with respect to their existing transmission service agreements. The tariff modifications will further provide that rollover rights that are not exercised during the one-time opportunity will be extinguished.<sup>14</sup>

With the Sections 203 and 205 filing and approval process complete, RTO West will prepare for commercial operations.

3. Summary of Remaining Elements Necessary for Determining Eligibility for Regional Transmission Organization Status Under Order 2000 and Additional Proposal Elements Included in This Filing

As previously noted, the Commission already has issued an order finding that (subject to certain minor modifications), the proposed governance, scope, and regional configuration of RTO West satisfy the first and second characteristics required for regional transmission organizations under Order 2000. This filing therefore addresses the remaining two characteristics and all eight functions for which the RTO West proposal has not yet received a Commission order. The manner in which the RTO West proposal satisfies each of these remaining characteristics and functions is explained below in Sections F and G.

In addition to the discussions and materials specific to each of the characteristics and functions required by Order 2000, there are documents included in this filing that provide important foundational elements and context for the overall RTO West proposal. These documents include (1) a revised Transmission Operating Agreement, (2) amended Bylaws for RTO West, (3) an informational draft of a proposed Scheduling Coordinator

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<sup>14</sup> The October 23, 2000 Filing explained the reasons for requiring a one-time election to exercise rollover rights provided under open access transmission tariffs. *See* October 23, 2000 Filing at 31-33.

Agreement, (4) an informational draft of an Agreement to Use Paying Agent,<sup>15</sup> and (5) background for and a description of the RTO West pricing model.

These materials are described in more detail in Section E below.

**D. Description of Stage 2 Process.**

The basic elements of the collaborative public process through which the filing utilities have worked to develop the RTO West proposal are described in the October 23, 2000 Filing.<sup>16</sup> During Stage 2, there has been an evolution of some of these elements as the urgency to prepare and submit a filing to the Commission has increased.

Initially, the vast majority of subject areas that could affect the RTO West proposal were carried out through public work groups (known as “content groups”) and the Regional Representatives Group process. In April 2001, the filing utilities concluded that it made little sense to work simultaneously on a wide range of subject areas when fundamental aspects of the pricing model and congestion management approach for RTO West remained unresolved. With this in mind, the filing utilities suspended work in many content areas (such as components of a draft tariff for RTO West) that would more logically follow resolution of core proposal elements. Though still relying heavily on collaborative public meetings, the filing utilities intensified their development work with respect to pricing and congestion management issues and shifted their emphasis to preparing “straw” proposals for broader stakeholder consideration, rather than attempting to develop approaches from whole cloth within the public meeting process.

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<sup>15</sup> The informational draft of the Agreement To Use Paying Agent is consistent with materials previously included with the October 23, 2000 Filing.

<sup>16</sup> See October 23, 2001 Filing at 16-28.

In recent months, the filing utilities have dedicated themselves to bringing a complete proposal to the Commission by the end of March 2002. There has been significantly less development work in the public arena as the filing utilities have shifted their focus from engaging in debate to making decisions. The filing utilities have directed virtually all their attention and resources to developing stable resolutions of the key proposal elements necessary to enable the Commission to determine that the RTO West proposal fulfills the requirements of Order 2000. During this period, as throughout the entire Stage 2 development, the filing utilities made earnest efforts to keep all interested parties apprised of their progress, to provide periodic opportunities for review and comment, and to consider and accommodate constructive comments when possible.

The resulting proposal submitted with this filing is one that the filing utilities believe will meet the needs of the region, the loads served by the transmission facilities to be included in RTO West, and other transmission customers that will use the RTO West system and services. It reflects the participation of a broad range of interested stakeholders and years of exploring many ideas for how best to accomplish the objectives articulated in Order 2000. It is informed by the significant contributions of stakeholders through written materials and input at Regional Representatives Group meetings and content-group meetings, and outreach by individual filing utilities to interested parties.

The Stage 2 proposal for RTO West represents the filing utilities' judgment of what, taken in its entirety, constitutes their best proposal for a regional transmission organization that measures up against a number of yardsticks: the requirements of Order 2000; what will be compatible with the physical and operational characteristics of the facilities, loads, and resources within the RTO West service area; what will minimize

cost shifts; and what the filing utilities believe will have the best chance of meeting state regulatory requirements and gaining Northwest Congressional Delegation support.<sup>17</sup>

These are particularly important in a region with low-cost electricity, where some believe that there are limited benefits to formation of a regional transmission organization. This proposal fulfills the requirements of Order 2000 in a manner that reasonably balances the goals of efficiency and equity and honors the principles to which the filing utilities agreed at the beginning of Stage 1.<sup>18</sup>

#### **E. Detailed Description of Filing Elements Summarized in Section C.3.**

##### **1. Description of Revised Transmission Operating Agreement**

The filing utilities have substantially revised the Transmission Operating Agreement submitted to the Commission on December 1, 2000 as part of the Concurring Utilities' Amended Supplemental Compliance Filing and Request for Declaratory Order Pursuant to Order 2000. Some revisions carry out Commission instructions from orders responding to the Stage 1 RTO West Proposal Filings. The great majority of revisions, however, are necessary to conform the provisions of the Transmission Operating Agreement to the work that has been done during Stage 2. These include major changes to the RTO West congestion management proposal and the RTO West pricing model; further work on indemnification and limitations of liability between RTO West and its

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<sup>17</sup> The filing utilities recognize that a utility could restructure during the period after this Stage 2 filing and before it signs a Transmission Operating Agreement. Restructuring could result in a utility losing a benefit or avoiding an obligation under the Transmission Operating Agreement. Consequently, restructuring has the potential for disrupting the balance of benefits and burdens in the proposal for RTO West. The filing utilities intend that each filing utility will continue to honor the obligations and receive the benefits reflected in the Stage 2 process, and the filing utilities will develop a plan to provide for this result.

<sup>18</sup> See Attachment B to October 23, 2000 Filing, as corrected by December 1, 2000 Errata Filing.

Participating Transmission Owners, consistent with Commission directives; and refinements to the proposed approaches for RTO West market monitoring and planning and expansion.

In Stage 1, the filing utilities submitted a multiparty liability agreement entitled “Agreement Limiting Liability Among RTO West Participants.” Participation in that agreement was then proposed to be required for all RTO West participants. In its July 12, 2001 Order, the Commission directed the filing utilities to revise the liability agreement so that it would not affect the rights and obligations of any parties other than RTO West and Participating Transmission Owners. Consistent with the July 12, 2001 Order, the filing utilities have now limited the scope of liability provisions so that they apply only to RTO West and each transmission owner that signs a Transmission Operating Agreement. These provisions have been incorporated into Section 19 of the Transmission Operating Agreement included as Attachment A, rather than set forth in a separate agreement..

Restricting liability provisions to the relationship between RTO West and Participating Transmission Owners could result in a set of rights and responsibilities for transmission owners that are different from those for generation or distribution entities. For this reason, the filing utilities intend to continue to work in the future on a voluntary, multilateral liability agreement. The multilateral agreement will be structured so that any generation or distribution entity may, on a voluntary basis, enter into the liability agreement with RTO West and any Participating Transmission Owners that choose to become parties to the agreement.

Because there are currently no tariff limitations of liability such as those proposed by filing utilities in Stage 1 (which the Commission rejected),<sup>19</sup> or those that are a part of the ERCOT tariff and agreement structure (which the Commission is considering in connection with its Rulemaking on Standardizing Generator Interconnection Agreements and Procedures, Docket No. RM02-1), Section 19 of the Transmission Operating Agreement requires RTO West to maintain a substantial amount of liability insurance and to include each Participating Transmission Owner as an additional named insured on its insurance policy. The filing utilities do not yet have information concerning the cost and availability of the insurance required under the Transmission Operating Agreement. In accordance with the Commission's directives, all references to the RTO West tariff continuity-of-service provisions have been removed. A number of filing utilities are concerned, however, that if the provisions to limit liability for wholesale and retail outage claims are not resolved through pending Commission proceedings or otherwise, it could result in broad or unevenly shared liability risk that could preclude their participation in RTO West.<sup>20</sup>

A revised Transmission Operating Agreement is included in this filing as Attachment A. In addition, Attachment B contains a summary of the key provisions of the Transmission Operating Agreement, as revised during Stage 2.

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<sup>19</sup> The filing utilities continue to believe that this is a significant policy issue and hope that the Commission will reconsider its position in its upcoming Notice of Proposed Rulemaking on Electricity Market Design and Structure, Docket No. RM01-12.

<sup>20</sup> This issue is fully discussed in Avista's comments in Docket No. RM02-1.



## 2. Description of Amended RTO West Bylaws

The filing utilities have amended the Bylaws for RTO West to comply with the Commission's instructions in its April 26, 2001 Order. 95 FERC ¶ 61,114, at 61,347. The amended Bylaws are included with this filing as Attachment C. The changes responding to the Commission's instructions (which changes are shown in "redline" form)<sup>21</sup> are in Article IV, Section 4.3.1; Article V, Section 5.3.2(b)(ii); and Article V, Section 5.3.2(d)(ii).

The change to Article IV, Section 4.3.1 gives the RTO West Board of Trustees the power to waive or reduce, on a nondiscriminatory basis, membership fees for legitimate public interest groups that wish to be members of RTO West. The change to Article V, Section 5.3.2(b)(ii) eliminates the restriction on certain members of the Transmission-Dependent Utilities Class from voting along with their fellow class members in filling four of the Trustee Selection Committee positions allocated to that class. The change to Article V, Section 5.3.2(d)(ii) provides that if there are no members of the Large Retail Customer Class acting as Scheduling Coordinators, all Trustee Selection Committee positions allocated to the Large Retail Customer Class may be elected by representatives of that class that are not Scheduling Coordinators.

Although the Commission did not so direct in its April 26, 2001 Order, the filing utilities also have modified two of the RTO West Bylaws' definitions: the definition of "Affiliate" (in Article I, Section 1.1.1) and the definition of "Major Transmitting Utility" (in Article I, Section 1.1.23). These changes were made to better accommodate

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<sup>21</sup> The numbering of the Bylaws' sections within each Article has been revised to make it easier to "navigate" within the document. These changes in numbering (and the resulting changes to cross-references within the Bylaws) are not shown in redline because they are not substantive.

participation in RTO West by Canadian entities. Article III, which deals with RTO West's corporate purposes, has been expanded to express the need to seek sustainable customer benefits. Article V, Section 5.2.2 has been clarified to avoid confusion between the concept of membership classes and "classes" of Trustees for purposes of staggering their terms of office.

Following the Stage 1 RTO West Proposal Filings, the filing utilities and other interested stakeholders (participating together in an RTO West Tariff Integration Group) worked to develop dispute resolution provisions for the RTO West tariff. The filing utilities believe there is significant stakeholder support for these dispute resolution provisions. The filing utilities also believe it is advisable to promote consistency among the provisions governing any disputes involving RTO West and its members or customers.

For these reasons, the filing utilities propose to delete the dispute resolution provisions included with the Bylaws for RTO West as filed on October 23, 2000 and replace them with those included as Attachment C.<sup>22</sup> The substitution of these new dispute resolution provisions necessitated some minor conforming changes in other Bylaws provisions. These are shown in redline in Article V, Sections 5.1.3 and 5.14.<sup>23</sup>

In addition, to strengthen provisions related to performance and financial accountability, the filing utilities have made minor amendments to Article VIII,

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<sup>22</sup> The new dispute resolution provisions are set forth in Exhibit C to the Bylaws. Because the new dispute resolution provisions replace the previous provisions in their entirety, the old text of Exhibit C has not been included. The new text of Exhibit C is shown in underline to flag the fact that there has been a change from the previous draft.

<sup>23</sup> Article V, Section 5.14 replaces language that was deleted from Article VII, Section 7.5 of the Bylaws.

Section 8.11.1 and Article IX, Sections 9.2.3, 9.2.4, and 9.3. Article VII, Section 7.5.3 has also been revised to strengthen provisions concerning Board Advisory Committee and public involvement. There are also a number of minor editorial changes throughout the Bylaws to improve style and consistency.

Finally, to avoid a potential problem that has come to the attention of the filing utilities with respect to other nonprofit organizations that require nonaffiliated board members, the filing utilities have revised Section 6.3.2 of Article VI. The revisions are intended to address potential reluctance of highly qualified candidates to participate in a competitive election process. Section 6.3.2, as amended, gives the Trustee Selection Committee flexibility to determine whether to nominate a number of board candidates that is equal to or greater than the number of available board positions. Thus, if the Trustee Selection Committee concludes that it is not problematic to hold competitive elections, it is not prohibited under the Bylaws from doing so. By the same token, it is not compelled to hold competitive elections if it determines that they would impede the candidate recruitment process.

### 3. Informational Draft of Proposed Scheduling Coordinator Agreement

At the urging of stakeholders who view the Scheduling Coordinator Agreement as a key document governing their interactions with RTO West, a draft proposed agreement, together with additional related materials, has been included with this filing for informational purposes. *See* Attachments J1 through J6. The draft Scheduling Coordinator Agreement was prepared by filing utility representatives and is still a work in progress. None of the filing utilities have approved the draft.

The main elements of the draft Scheduling Coordinator Agreement are its technical requirements and credit provisions. The technical requirements are necessary because of the operational duties Scheduling Coordinators must carry out during real-time dispatch. The credit requirements are essential both to protect the financial viability of RTO West and to limit the risk market participants and customers assume by doing business with RTO West. Because Scheduling Coordinators are the counterparties to almost all financial and operational aspects of RTO West's activities, the failure of a Scheduling Coordinator can be catastrophic.

As recent events in California demonstrated, a Scheduling Coordinator's failure to deliver energy can leave the system operator with no option but to serve load from imbalance energy. This is problematic in terms of both an operational reliability standpoint and its financial consequences. Under adverse market conditions, the cost for the system operator to purchase imbalance energy and congestion clearing can be extremely high. If a Scheduling Coordinator has accumulated large bills for imbalance energy and other services, and then fails to pay those bills, RTO West will have to address the shortfall somehow. Customers should not be subjected to substantial cost shifts in the wake of a Scheduling Coordinator failure.

These risks necessitate a thorough Scheduling Coordinator qualification process with robust credit screens, including a Scheduling Coordinator's access to unsecured credit. RTO West's unsecured-credit access policy is critical to the filing utilities and is the subject of significant continuing negotiations. In addition to Scheduling Coordinator credit screens to protect against Scheduling Coordinator default, the filing utilities must develop a strategy to address responsibility for duties of a Scheduling Coordinator that

defaults or becomes subject to RTO West suspension or termination. Part of this strategy must include provision for a backup Scheduling Coordinator.<sup>24</sup>

Although the filing utilities believe that the technical and credit requirements proposed for Scheduling Coordinators are vitally important, they recognize that RTO West will have the power to review and change these requirements periodically. The attached draft Scheduling Coordinator Agreement supports RTO West's discretion to adapt credit policies to changing conditions. For example, the draft recognizes that RTO West may exercise its judgment to depart from established credit policy in appropriate circumstances, such as taking into account a Scheduling Coordinator's access to funds in addition to the Scheduling Coordinator's formal credit rating. The attached informational draft Scheduling Coordinator Agreement is intended to provide a reasonable starting point for further work in this area.<sup>25</sup>

#### 4. Informational Draft of Agreement To Use Paying Agent

As explained in the October 23, 2000 Filing, the filing utilities intend to use a paying agent to manage the receipt and allocation of transmission customers' payments.<sup>26</sup> The revised informational draft of an Agreement To Use Paying Agent has been updated to recognize the role that Scheduling Coordinators will play in carrying out transactions

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<sup>24</sup> Without appropriate provisions for backup scheduling coordination (other than by RTO West), some filing utilities may have significant reservations about participating in RTO West. In the absence of a separate, predesignated backup Scheduling Coordinator, they believe that there must be a reliable mechanism to protect utilities in one state from the costs of imbalance energy acquired by RTO West as provider of last resort for customers in another state after those customers' Scheduling Coordinator has defaulted or been disqualified.

<sup>25</sup> Upon completion of the Scheduling Coordinator Agreement and further assessment of credit risks, the filing utilities intend to review the credit provisions of the Transmission Operating Agreement and may develop revisions as appropriate.

<sup>26</sup> See October 23, 2000 Filing at 48-49, 86-87, Attachments W, X.

with RTO West. Otherwise, the draft is generally consistent with the materials included with the October 23, 2000 Filing.

5. Description of Pricing Model

Designing a workable pricing model for the recovery of embedded system costs has been one of the most significant challenges of the RTO West development process. The filing utilities' efforts have focused on five central objectives in pricing RTO West's non-discriminatory open transmission access: (1) avoiding substantial price increases and cost shifting among loads, (2) eliminating "pancaked" rates for use of the RTO West transmission system; (3) honoring existing transmission service agreements, (4) recovering a contribution to fixed costs from all users of the RTO West transmission system, and (5) promoting economic efficiency by minimizing use of volumetric, transaction-based charges.

During Stage 1 and Stage 2, the filing utilities have, in conjunction with the RTO West collaborative process, considered and analyzed many different options for how best to design a proposal consistent with their key objectives. None have proven to be perfect solutions. Each approach failed to fully achieve at least one important objective. This reflects the difficulty of developing new pricing methodology in an already low-cost region.

Two major factors have compounded this difficulty: (1) the significant differences among the filing utilities with respect to their current costs of transmission service and (2) the large proportion of embedded system costs that are recovered through short-term and non-firm transmission service. Currently, there is a spread of several multiples between the highest and lowest transmission costs paid by different filing

utilities' loads. This means that a cost-averaging approach would lead to substantial transmission cost increases for some parties. Furthermore, to the extent that a new pricing methodology eliminates revenues from pancaked charges, which filing utilities receive for transmission service to each other and third parties (for long-term, short-term, and non-firm service), it creates the risk of substantial cost shifts among the loads served by the filing utilities.

Recovering revenues that are currently collected through short-term and non-firm use of the filing utilities' transmission systems has proven to be the most formidable aspect of pricing development. In 2000, these uses accounted for almost 18% of the filing utilities' total cost recovery for transmission facilities. It was this, in fact, that in large part caused the filing utilities to conclude, after submitting the Stage 1 RTO West Proposal Filings, that the Stage 1 pricing proposal was not workable.<sup>27</sup>

The proposal that the filing utilities have included with this filing is the approach that they believe strikes the most fair and workable balance among the options they have explored during Stage 2. A complete description of this proposal is set forth in Attachment E1.

The key features of the pricing proposal are (1) consistent with the "license-plate" approach proposed in Stage 1, "Company Rates" for load service;<sup>28</sup> (2) payments for

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<sup>27</sup> The Stage 1 pricing proposal is described on pp. 34-41 of the October 23, 2000 Filing. In Stage 1, revenues received by the filing utilities for transmission services provided to each other (long-term, short-term, and non-firm) were to be recovered through a system of transfer payments. While the Stage 2 pricing proposal still provides for transfer payments related to long-term transmission service, transfer payments were not an adequate mechanism for addressing short-term and non-firm revenues.

<sup>28</sup> To synchronize the rate-making methodologies among the filing utilities, the Company Rates and adjustments to Transfer Charges should be calculated in a comparable manner. Because Bonneville sets its rates on a prospective basis, the filing utilities propose to use a prospective, two-year test period to calculate their Company Costs, adjustments, and loads.

service under existing long-term transmission agreements (which become “Transfer Charges” if an agreement is converted to RTO West service); (3) a “Replacement Revenue Pool” with a target based on past revenues from short-term and non-firm transmission revenues (as well as revenues from long-term contracts that expire during the Company Rate Period), which is recovered through an “External Interface Access Fee” and any available surplus revenues from congestion management; and (4) a “Grid Management Charge,” which is the method by which RTO West will collect specified start-up and operating costs. The description of the Stage 2 pricing proposal also includes an initial approach for dealing with real power losses (described in Section D.2.f of Attachment E1).

The methodology applied to the Replacement Revenue Pool is the aspect of the Stage 2 pricing proposal that is significantly different from what was proposed in Stage 1. The External Interface Access Fee is based on a system average rate (sometimes referred to as a “postage stamp” rate). It applies to all schedules that have withdrawal points at the external interfaces of the RTO West transmission system<sup>29</sup> (if the schedule is not covered by existing long-term transmission agreements or existing load service obligations). Users scheduling to these points must demonstrate that they have external interface access from rights under pre-existing agreements or that they have paid the necessary External Interface Access Fee. Otherwise, they will be charged the applicable amount as a component of their settlement charges. To the extent that there are net surplus revenues generated through the RTO West congestion management process, these

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<sup>29</sup> Or with the external interface points of the facilities of RTO West and an Independent Operator as described in Section 4 of the Transmission Operating Agreement.



will be credited against the Replacement Revenue Pool as well. There is a “backstop” mechanism to true up recovery allocations if the combined revenue from the External Interface Access Fee and congestion management surpluses is consistently greater or less than the amount needed for the Revenue Replacement Pool.

The filing utilities’ Stage 2 proposal attempts to ensure that all users of the RTO West transmission system make fair contributions to its embedded costs. It reduces the risk that embedded-cost responsibility will shift from those who used short-term services in the past to loads and those who relied on long-term service. Cost shifting among filing utilities’ loads could create significant obstacles to some filing utilities’ participation in RTO West and might make the RTO West proposal less likely to meet state regulatory requirements.

The initial pricing proposal will endure for the Company Rate Period (defined in the Transmission Operation Agreement to end eight years after the date RTO West begins commercial operations). After that, RTO West has the authority, subject to the terms of Order 2000 and other applicable laws and regulations, to propose whatever rate structure it determines will best meet the Commission’s rules and regulations and the needs of the region. The Commission has previously approved transitional rate structures for regional transmission organizations that were necessary to resolve cost-shifting problems<sup>30</sup> and should do so with respect to the RTO West pricing proposal as well. The filing utilities seek approval only of the transitional pricing methodology. Actual rate filings will be timely submitted before the RTO West begins commercial operations.

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<sup>30</sup> See, e.g., Order on Compliance Filing and Providing Further Guidance, Denying Requests for Rehearing, and Rejecting an Alternative Governance Structure, Docket Nos. ER99-3144-003, et al., 94 FERC ¶ 61,070 at 61,311-12, issued January 24, 2001 (Alliance).

**F. RTO West's Fulfillment of Four RTO Characteristics.**

**1. Independence**

In its April 26, 2001 Order, the Commission granted the filing utilities' request for a declaratory order finding that the proposed governance structure of RTO West satisfies the independence characteristic of a regional transmission organization as set forth in 18 C.F.R. § 35.34(j)(1).<sup>31</sup> The Commission granted this request subject to a requirement to modify certain provisions of the RTO West Bylaws and the RTO West Transmission Operation Agreement.<sup>32</sup>

As described in Sections E.1 and E.2 above, the filing utilities have made the modifications to the Transmission Operating Agreement and the RTO West Bylaws as the Commission directed.

The Transmission Operating Agreement and Bylaws for RTO West, as amended and included with this filing at Attachments A and C, are consistent with a fully independent regional transmission organization. The Bylaws require that no RTO West Trustee or employee have a financial interest in any market participant (as that term is defined in 18 C.F.R. § 35.34(b)(2)). The RTO West decision-making process is independent of control by any market participant or class of participants. With the exception of permitted filings for performance-based and incentive-oriented rates, RTO West also will have the independent and exclusive authority to propose, under Section 205 of the Federal Power Act, the rates, terms, and conditions of transmission service provided over the facilities it operates (consistent with its obligations under the

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<sup>31</sup> 95 FERC ¶ 61,114, at 61,347.

<sup>32</sup> *Id.*

RTO West Transmission Operating Agreement to provide agreed-upon cost recovery to Participating Transmission Owners).<sup>33</sup> The Commission should therefore confirm its determination, issued in its April 26, 2001 Order, that the proposed governance structure and authority of RTO West complies with the independence requirements of 18 C.F.R. § 35.34(j)(1).

## 2. Scope and Regional Configuration

In its April 26, 2001 Order, the Commission found that the RTO West proposal satisfied the scope and regional configuration characteristic of a regional transmission organization under Order 2000.<sup>34</sup> The filing utilities do not propose to amend the approved regional scope and configuration of RTO West, but, as detailed in the Status Report Concerning RTO West Development (filed December 1, 2001 by Avista, Bonneville, B.C. Hydro, Idaho Power, Montana Power (now NorthWestern), PacifiCorp, and Puget), they have been working with Canadian entities to develop the framework for seamless integration of wholesale transmission services in RTO West and in British Columbia and Alberta, Canada while respecting Canadian sovereignty and appropriate regulatory oversight of Canadian facilities.<sup>35</sup>

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<sup>33</sup> The transitional rate structure based on Company Rates as provided in the Transmission Operating Agreement is similar to other proposals designed to manage cost shifts that the Commission has approved. *See, e.g.*, Order on Compliance Filing and Providing Further Guidance, Denying Requests for Rehearing, and Rejecting and Alternative Governance Structure, Docket Nos. ER99-3144-003, et al., 94 FERC ¶ 61,070 at 61,311-12, issued January 24, 2001 (Alliance).

<sup>34</sup> 95 FERC ¶ 61,114, at 61,328.

<sup>35</sup> Status Report Concerning RTO West Development at 5-8.

a. Canadian Participation

Section 4 of the Transmission Operating Agreement includes a range of Canadian participation provisions that are designed to be flexible. They will enable RTO West to accommodate participation by B.C. Hydro and Alberta, as well as other Canadian transmission owners and operators, on a number of bases.<sup>36</sup>

The province of British Columbia is currently studying the restructuring of the energy sector in British Columbia. Given this development, the basis upon which British Columbia may be able to participate in RTO West is undergoing review. The filing utilities are working actively with B.C. Hydro and Alberta to accommodate their participation and expect to propose specific provisions when the necessary details have been worked out.

b. Facilities To Be Included in RTO West

In its April 26, 2001 Order, the Commission emphasized that “most or all of the transmission facilities in the region should be operated by the RTO, as well as those necessary for operational control and management of constrained paths, regardless of the voltage.”<sup>37</sup> 95 FERC at 61,345. Under the Transmission Operating Agreement, three

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<sup>36</sup> The provisions of Sections 4.1 and 4.2 of the RTO West Transmission Operating Agreement express the minimum conditions that the U.S. filing utilities consider necessary to accommodate Canadian participation on a level playing field within RTO West. Participation in regional transmission organizations is a matter of first impression in Canada. The question of whether, and to what extent, Canadian participation in RTO West will be accommodated by Sections 4.1 and 4.2 depends on the extent to which those conditions are acceptable to Canadian regulators and compatible with the Canadian regulatory structure. In recognition of this fact, the U.S. filing utilities have committed to continue working with B.C. Hydro and Alberta after the Stage 2 filing to explore, if necessary, other means by which Canadian participation may be accommodated without providing advantages to market participants on either side of the border. As a consequence, the filing utilities may later propose amendments to Section 4 of the RTO West Transmission Operating Agreement.

<sup>37</sup> The Commission also noted that “[s]ome of these facilities may currently operate as higher voltage distribution lines while others may be a lower voltage radial line that is considered essential for wholesale transmission service.” *Id.*

types of facilities are described with the term “RTO West Transmission System”: RTO West Controlled Transmission Facilities,<sup>38</sup> Certain Distribution Facilities,<sup>39</sup> and Transmission Facilities.<sup>40</sup> Under the Transmission Operating Agreements, RTO West will provide Transmission Services over the RTO West Transmission System. In addition, RTO West will provide access to service on facilities that are not included as part of the RTO West Transmission System but that are needed to transmit wholesale power (local distribution facilities).<sup>41</sup> This facilities approach allows RTO West to offer customers true “one-stop shopping” for Transmission Services in satisfaction of the Commission’s test.

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<sup>38</sup> These are the transmission facilities that (1) materially impact the transmission system’s transfer capability (the capability of a transfer path in the WSCC’s path ratings catalogue) and (2) are necessary for RTO West to carry out its congestion management function. These facilities are listed in Exhibit D of the Transmission Operating Agreement. At stakeholder meetings, these facilities were referred to as “Class A” facilities. A Participating Transmission Owner will turn control of these facilities over to RTO West. *See* Transmission Operating Agreement, Section 6.1.1.

<sup>39</sup> These are dual-function facilities that are used primarily to provide retail load service, with a secondary purpose of providing, and supporting the provision of, wholesale services. These are classified as distribution facilities pursuant to State or federal order. Despite this classification, these facilities have a secondary effect on RTO West’s ability to execute its congestion management function. Because of their effect, RTO West will have certain operational, maintenance, and planning authority over these facilities to enable it to provide wholesale transmission services and manage congestion on such facilities. These facilities will be priced under a Commission-approved wholesale distribution tariff. The Participating Transmission Owners will retain ultimate authority for all local distribution planning and expansion on these facilities, but RTO West will have planning and expansion authority on these facilities for transmission adequacy and congestion management purposes. These facilities are listed in Exhibit N to the Transmission Operating Agreement. At stakeholder meetings, these facilities were referred to as “Class C” facilities. *See id.* Section 6.1.2.1.

<sup>40</sup> These are the transmission facilities listed in Exhibit B to the Transmission Operating Agreement. This term includes both the RTO West Controlled Transmission Facilities (or Class A facilities) and those facilities a Participating Transmission Owner may turn over to RTO West, for purposes of transmission access and cost recovery. At stakeholder meetings, these latter facilities, which are turned over for pricing and not control, were referred to as “Class B” facilities. *See id.* Section 6.1.3.

<sup>41</sup> *See id.* Section 6.5. At stakeholder meetings, these distribution facilities over which wholesale access is provided were referred to as “Class D” facilities.

In preparing this proposal for RTO West, it was necessary to create the defined terms identified above for the RTO West Transmission System in order to accommodate the competing interests over the transmission facilities, such as state and federal control, wholesale access, and pricing. To strengthen the proposal, meetings with stakeholders will continue over the next few weeks. These meetings may result in the adoption of a proposal that enhances or replaces this facilities approach and may require revisions to the Transmission Operating Agreement.<sup>42</sup>

The following table summarizes how these facilities fit together within the construct of the Transmission Operating Agreement, at present.

<b>SUMMARY OF FACILITIES PROPOSAL</b>				
<b>Functions</b>	<b>RTO West Transmission System</b>			<b>Other Delivery Facilities</b>
	<b>RTO West Controlled Transmission Facilities (Class A)</b>	<b>Certain Distribution Facilities (Class C)</b>	<b>Transmission Facilities Other than RTO West Controlled (Class B)</b>	<b>Local Distribution Facilities (Class D)</b>
<b>Wholesale Access Service Provider</b>	RTO	RTO	RTO <sup>1</sup>	RTO <sup>1</sup>
<b>Pricing</b>	RTO Tariff <sup>2</sup>	RTO Tariff <sup>3</sup>	RTO Tariff <sup>2</sup>	PTO Charge <sup>3</sup>
<b>Operation Standards</b>	RTO Standards	RTO Standards/ PTO Standards <sup>4</sup>	PTO Standards <sup>5</sup>	PTO Standards <sup>5</sup>
<b>Operational Control</b>	RTO	RTO/PTO <sup>4</sup>	PTO	PTO

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<sup>42</sup> If revisions to the Transmission Operating Agreement or changes to the lists of facilities are agreed upon, they will be filed promptly.

<b>SUMMARY OF FACILITIES PROPOSAL</b>				
<b>Maintenance Guidelines</b>	RTO	RTO	PTO <sup>5</sup>	PTO <sup>5</sup>
<b>Maintenance Execution</b>	PTO at direction of RTO	PTO at direction of RTO	PTO	PTO
<b>Congestion Management</b>	RTO Solution <sup>6</sup>	RTO Solution <sup>6</sup>	PTO Solution <sup>6</sup>	PTO Solution <sup>6</sup>
<b>Planning Responsibility</b>	RTO Process	RTO Process/PTO Process <sup>7</sup>	PTO Process <sup>8</sup>	PTO Process <sup>8</sup>
<b>Planning Input</b>	Appropriate Stakeholder Input	Appropriate Stakeholder Input <sup>8</sup>	Appropriate Stakeholder Input <sup>8</sup>	Appropriate Stakeholder Input <sup>8</sup>
<b>Interconnection</b>	RTO Standards	PTO Standards <sup>9</sup>	PTO Standards <sup>9</sup>	PTO Standards <sup>9</sup>
<b>Dispute Resolution</b>	RTO using RTO Standards	RTO using PTO Standards <sup>10</sup>	RTO using PTO Standards <sup>10</sup>	RTO using PTO Standards <sup>10</sup>

1. Providing access is primarily the function of accepting and processing requests for service.
2. The RTO West Tariff will include and recover the cost of all Transmission Facilities of the Participating Transmission Owner.
3. RTO West's provision of wholesale transmission service over Certain Distribution Facilities or the Participating Transmission Owner's provision of delivery over a local distribution facility may result in a charge for use of the Participating Transmission Owner's distribution facilities through a Commission-regulated wholesale distribution charge additive to the RTO West transmission charge. This may be in the form of a Wholesale Distribution Access Tariff. The combined total of RTO West's transmission rate for a Participating Transmission Owner and that Participating Transmission Owner's wholesale distribution rate would not exceed the Participating Transmission Owner's transmission rate if all facilities were classified as transmission (*i.e.*, no rate pancaking, only a segmentation of the pricing).
4. RTO West will have sufficient operational control to provide adequate wholesale transmission service across the Class C facilities. The Participating Transmission Owner sets operational standards for these dual-function facilities in order to provide adequate retail service. Standards are subject to State regulation but can be challenged or modified by RTO West (for wholesale service) via RTO West dispute resolution.

5. The Participating Transmission Owner sets operational and maintenance guidelines for low-voltage transmission and distribution service (both wholesale and retail). Guidelines may be subject to State or other regulation, and failure to provide adequate wholesale service consistent with the guidelines can be challenged through RTO West dispute resolution.
6. On the RTO West Controlled Transmission Facilities and Certain Distribution Facilities, congestion management will be accomplished by RTO West through its congestion management process. In the remainder of the system, congestion will simply be avoided by requiring that local facilities be “adequate” for final delivery. This adequacy is the responsibility of the Participating Transmission Owner and is addressed through the operation, maintenance, and planning policies described above.
7. RTO West will have planning and expansion authority on these facilities for transmission adequacy and congestion management purposes. The Participating Transmission Owner retains ultimate planning authority for local distribution planning. This is critical to setting the quality and cost of local retail service as well as final wholesale delivery.
8. The Participating Transmission Owner carries the primary responsibility for planning of low voltage and local distribution facilities in accordance with normal utility practice. The primacy of local planning is critical to the quality and cost of local retail service as well as final wholesale delivery. RTO West customers, or transmission customers receiving service directly from the Participating Transmission Owner, may provide input and participate in the Participating Transmission Owner’s planning in a manner at least equivalent to the involvement of major retail customers, consistent with the Participating Transmission Owner’s planning process.
9. The Participating Transmission Owner may apply its interconnection standards to such facilities. RTO West may adopt interconnection standards that apply to the Participating Transmission Owner’s Class A, B, C, and D facilities, provided such standards comply with applicable state and federal requirements and do not cause a material adverse impact on the Participating Transmission Owner’s electric system or the Participating Transmission Owner’s interconnected loads.
10. The RTO West dispute resolution process may be used to resolve disputes concerning wholesale access to, or the adequacy of wholesale service over, these facilities. The Participating Transmission Owner’s standards will be applied for purposes of resolving other types of disputes on Class B, C, and D facilities.



The transmission facilities identified in Attachment D<sup>43</sup> and the provisions of the Transmission Operating Agreement are consistent with the Commission's guidance in the April 26, 2001 Order and fully support appropriate scope and configuration for RTO West. The Commission should therefore confirm its determination, issued in its April 26, 2001 Order, that the proposed scope and regional configuration of RTO West comply with the scope and regional-configuration requirements of 18 C.F.R. § 35.34(j)(2).

3. Operational Authority

The Transmission Operating Agreement gives RTO West operational authority and the right to provide transmission services over all the facilities placed under its control.<sup>44</sup> Section 6.7.6 of the Transmission Operating Agreement requires RTO West to use all reasonable efforts to cause interconnected loads and generators to respond as needed in system emergencies and to incorporate into its tariff appropriate penalties and incentives to encourage compliance. The Transmission Operating Agreement also provides, in Section 6.10, that RTO West will perform all security coordination functions (directly or by contract) related to its transmission system. As explained in the October 23, 2000 Filing, an independent nonprofit corporation known as Pacific Northwest Security Coordinator ("PNSC") now provides security coordination services to most of the control areas that will be encompassed by RTO West.<sup>45</sup> In fact, PNSC is currently the security coordinator for every filing utility except Nevada Power. PNSC

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<sup>43</sup> Attachment D also includes, for illustrative purposes, the transmission facilities of B.C. Hydro. British Columbia is not currently included in RTO West scope and regional configuration, and no declaratory relief is sought with respect to these facilities.

<sup>44</sup> See Transmission Operating Agreement Sections 6.1.1, 6.4.1, 6.6.

<sup>45</sup> October 23, 2000 Filing at 63-65.

also serves a number of additional control areas in the northwestern United States, as well as the control area within Alberta, Canada. Not all of these control areas are expected to be part of RTO West when RTO West begins commercial operations.

The control area operators PNSC now serve value the integration of security coordination across a broad, operationally coherent area. Enabling RTO West to work through PNSC to provide security coordination services will allow this integration to continue. This is the approach the filing utilities anticipate that RTO West will take, at least initially.

Through the provisions of the Transmission Operating Agreement and anticipated arrangements with PNSC, RTO West will have the operational authority required under Order 2000. The Commission should therefore find that the RTO West proposal complies with the operational-authority requirements of 18 C.F.R. § 35.34(j)(3).

#### 4. Short-Term Reliability

As provided in Section 6.6 of the Transmission Operating Agreement, RTO West will operate a single control area that will encompass all of the control areas previously operated by RTO West's Participating Transmission Owners. As the control area operator, RTO West will have exclusive authority for receiving, confirming, and implementing all interchange schedules (in addition to its exclusive authority to receive, confirm, and implement schedules within the RTO West transmission system).

Section 6.10 of the Transmission Operating Agreement provides (and Generation Integration Agreements applicable to generators connected to the transmission facilities will provide) that RTO West has the authority to take actions necessary to maintain the reliability, security, and stability of the RTO West transmission system.

RTO West will have the authority to approve or disapprove scheduled outage requests for the facilities over which it has operational control.<sup>46</sup> RTO West will also have the authority to report to the Commission if RTO West determines that any reliability standards established by the Western Systems Coordinating Council (the “WSCC,” or its expected successor, the Western Electricity Coordinating Council (the “WECC”)) hinder its ability to provide reliable, non-discriminatory, and efficiently priced transmission services.<sup>47</sup> The Commission should find that the proposed authority of RTO West to maintain the short-term reliability of the transmission facilities it will operate satisfies the short-term reliability characteristic of a regional transmission organization as set forth in 18 C.F.R. § 35.34(j)(4).

**G. RTO West’s Fulfillment of Eight RTO Functions.**

1. Tariff Administration and Design

RTO West will have the authority to design and administer its tariff as Order 2000 requires. Section 6.4.1 of the Transmission Operating Agreement provides that RTO West has the exclusive right and obligation to provide transmission service across the RTO West transmission system. Section 6.7.1 of the Transmission Operating Agreement provides that RTO West will maintain a tariff governing its transmission services and will have the exclusive authority to administer that tariff. In addition, other than during the Company Rate Period specified in the Transmission Operating Agreement (during

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<sup>46</sup> See Section 6.8.5 of the Transmission Operating Agreement.

<sup>47</sup> There is nothing in the Transmission Operating Agreement that specifically addresses this topic. However, RTO West has an obligation under Section 6.7.8 to comply with all regulations applicable to the provision of transmission services. This would include reporting to the Commission as required under 18 C.F.R. § 35.34(j)(4)(iv).

which time the RTO West rate design must be in accordance with the terms of the Transmission Operating Agreement), RTO West will have the authority (subject to fulfilling revenue-requirement obligations to Participating Transmission Owners) to determine the rate design for its tariff.<sup>48</sup>

The Commission has previously approved, for other proposed regional transmission organizations, the use of a transitional rate structure to avoid unwarranted cost shifting.<sup>49</sup> The RTO West pricing proposal described in Attachment E1 is necessary, given regional characteristics, to avoid significant and unacceptable cost shifting. The pricing proposal is transitional, consistent with the Commission's previously granted approval. The Commission should find that the proposed administration and design of RTO West's tariff (including the transitional pricing methodology) satisfy the tariff administration and design function of a regional transmission organization as set forth in 18 C.F.R. § 35.34(k)(1).

## 2. Congestion Management

The proposal for RTO West's congestion management system (which is described in detail in Attachment F) represents almost two years of intensive work. It has been carefully crafted to fully comply with the Commission's requirements under Order 2000

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<sup>48</sup> To the extent that the Commission has authorized some participants in RTO West to propose innovative or incentive rate treatments directly to the Commission based on a finding of independence, those participants may propose rates based on such rate treatments. The resulting rates will be reflected in the RTO West tariff and are intended to be consistent with the transitional rate structure proposed for the Company Rate Period.

<sup>49</sup> See, e.g., Order on Compliance Filing and Providing Further Guidance, Denying Requests for Rehearing, and Rejecting an Alternative Governance Structure, Docket Nos. ER99-3144-003, et al., 94 FERC ¶ 61,070, issued January 24, 2001 (Alliance).

while honoring bedrock principles that are necessary to make the proposal fair and operationally workable.

The congestion management proposal provides for a market-based system of managing congestion that will function from the beginning of RTO West commercial operations.<sup>50</sup> It relies on a voluntary bidding process open to generators and dispatchable loads. RTO West will use these bids to compute locational prices<sup>51</sup> and manage congestion based on security-constrained, least-cost redispatch. This will provide RTO West transmission customers with efficient price signals that show the consequences of their transmission usage decisions.

The RTO West congestion management proposal accommodates broad participation by all market participants because RTO West will accept all schedule requests (subject to the requirements that schedules must be balanced and all schedules, taken together, must be physically feasible within existing system constraints after implementing available redispatch). In addition, the RTO West congestion management proposal will allocate scarce transmission capacity to those that value it most. Those that wish to hedge against potential congestion charges will be able to purchase flexible financial instruments known as “Financial Transmission Options.”

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<sup>50</sup> As noted in Section C.2 of this filing letter, the filing utilities recognize the need for preoperational testing and validation of the RTO West market design, including elements related to congestion management. The filing utilities intend that this work will begin promptly after the Commission has issued an order finding that the RTO West Stage 2 proposal satisfies the characteristics and functions of a regional transmission organization under Order 2000.

<sup>51</sup> The filing utilities have not used the term “locational marginal pricing” here, to avoid potential confusion. Locational prices under the RTO West congestion management proposal will be marginal, in that they will reflect the lowest bid price for the next increment of energy delivered to a particular location, but those bid prices will not necessarily correspond to marginal production costs for the energy supplier. This issue is explained further in Section C.1 of Attachment F.

The RTO West congestion management proposal also enables Participating Transmission Owners to continue to honor the terms of their pre-existing transmission agreements and load service obligations.<sup>52</sup> It avoids asking Participating Transmission Owners to make the untenable choice between failing to comply with their pre-existing obligations or facing severe additional cost risk to meet those obligations. Likewise, contract customers that have negotiated and paid for the use of the system are not forced to relinquish or renegotiate those rights. Rather, RTO West is given the means to effectively manage use of the transmission system, including for pre-existing claims. Parties that wish to convert their old contract service into the broader, more flexible service under the RTO West transmission service tariff will have the option to do so.

The RTO West congestion management proposal strikes a fair and workable balance by providing a uniform basis for managing congestion and accommodating new uses without imposing unreasonable risk and expense on existing users. The Commission should find that the proposed congestion management system for RTO West satisfies the congestion management function of a regional transmission organization as set forth in 18 C.F.R. § 35.34(k)(2).

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<sup>52</sup> Distinguishing features of the Northwest are its hydroelectric system and its long history of coordinated operations. Coordinated hydro operations occur primarily through arrangements pursuant to the Columbia River Treaty, the 1964 or 1997 Pacific Northwest Coordination Agreements or their successors (the “PNCA”), and the 1997 Agreement for the Hourly Coordination of Projects on the Mid-Columbia River or its successor (the “MCHCA”). Under this proposal for RTO West, RTO West becomes the provider of transmission services over the RTO West transmission system. RTO West is obligated to provide transmission services in accordance with applicable laws and regulations and the Transmission Operating Agreement. Arrangements pursuant to the Columbia River Treaty and the PNCA are addressed in the Transmission Operating Agreement in the same manner as any other pre-existing transmission agreements. Because the MCHCA is implemented dynamically and not through the submission of transmission schedules, the MCHCA is not considered a pre-existing transmission agreement. Nevertheless, RTO West will operate the RTO West transmission system and manage congestion to accommodate full performance of the MCHCA.

### 3. Parallel Path Flow

The Stage 1 RTO West Proposal Filings included discussion of expected methods by which RTO West would manage parallel path flows inside and outside its sphere of operations. These methods centered on the then-proposed system of physical flowpath, zonal-based congestion management along with continued participation in existing programs within the Western Interconnection, such as the WSCC Unscheduled Flow Mitigation Plan and path rating methodology.

It is still the filing utilities' expectation that programs previously developed through the WSCC membership process will continue. In addition to these, however, during the Stage 2 RTO West development process there have been several positive changes and advancements regarding parallel path flows.

The filing utilities now propose for RTO West to use a financial, security-constrained, locational-pricing congestion management and scheduling model. This model will require transactions to be scheduled between injection and withdrawal locations instead of over physical flow paths. RTO West's feasibility and adequacy testing for congestion management will model the actual flows resulting from these injection/withdrawal-based schedules across the entire network (as limited by security-constrained Total Transmission Capability on various links within the network). The flow distribution factors linking injection and withdrawal points on the RTO West system will be calculated using a full Western Interconnection physical system network representation including the effects of phase-shifter operation. This flow analysis and related scheduling practices will essentially eliminate parallel path flows created within

the RTO West system (because schedules are accounted for by their resulting actual flows).

To minimize market design and scheduling discontinuities among neighboring regional transmission organizations in the West (which might, among other things, otherwise result in additional parallel path flows), representatives of RTO West, the California ISO, and WestConnect have identified principles for a Western Market Vision.<sup>53</sup> These representatives, working through the Seams Steering Group – Western Interconnection (the “Steering Group”) have begun negotiations to implement this vision for creating seamless markets in the Western Interconnection. As this work brings core market design features and scheduling components into alignment, it will reduce parallel path flow effects and facilitate trading and scheduling across all three of the regional transmission organizations currently proposed for the West.

Furthermore, as part of its recent market design reform, the California ISO currently proposes a nodal pricing approach for congestion management. This should align and reduce seams issues with RTO West’s proposed market design. This, by itself, will reduce parallel path flow issues between the California ISO and RTO West.

As described in the December 1, 2001 Status Report Concerning RTO West Development,<sup>54</sup> the Common Systems Interface Committee (under the auspices of the Steering Group) is working to develop joint systems and protocols to match scheduling practices at the seams between the three developing regional transmission organizations

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<sup>53</sup> See Exhibit A to Status Report Concerning RTO West Development, filed December 1, 2001 by Avista, Bonneville, B.C. Hydro, Idaho Power, Montana Power (now NorthWestern), PacifiCorp, and Puget.

<sup>54</sup> The status report was filed by Avista, Bonneville, B.C. Hydro, Idaho Power, Montana Power (now NorthWestern), PacifiCorp, and Puget.



in the West. In addition, the Seams Task Force of the Western Market Interface Committee has recently completed an initial report to the Steering Group. This report recommends options for coordinated phase-shifter operation, outage coordination, scheduling protocols, and other core market design and coordination elements that need to be common in the Western Interconnection to further reduce or eliminate parallel path flows among regional transmission organizations in the West.

The combination of existing approaches and new efforts to build on their foundation provides RTO West with strong, effective tools to manage parallel path flows within its own system and with adjoining systems. Accordingly, the Commission should find that the proposed procedures by which RTO West will address parallel path flows satisfy the parallel-path-flow function of a regional transmission organization as set forth in 18 C.F.R. § 35.34(k)(3).

#### 4. Ancillary Services

The proposed structure under which RTO West will provide for ancillary services is described in Attachment G. The RTO West ancillary-services structure has been designed to complement and integrate smoothly with the RTO West congestion management system and to build on the bilateral market that already exists within parts of RTO West's area for many ancillary services.<sup>55</sup> RTO West will promote, to the extent

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<sup>55</sup> As noted in Section C.2 of this filing letter, the filing utilities recognize the need for preoperational testing and validation of the RTO West market design, including elements related to the provision of ancillary services. The filing utilities intend that this work will begin promptly after the Commission has issued an order finding that the RTO West Stage 2 proposal satisfies the characteristics and functions of a regional transmission organization under Order 2000.

feasible, a fully competitive market for the procurement of ancillary services.<sup>56</sup> To ensure that all transmission customers have access to a real-time balancing market, the ancillary-services proposal contemplates that RTO West will, at least initially, operate a real-time balancing market.

As required by Order 2000, RTO West will serve as the provider of last resort for all ancillary services required under Order 888 and subsequent orders. It will provide all market participants (through their Scheduling Coordinators) with a range of options that allow them to meet their ancillary-services obligations and to manage their ancillary-services price risk. These options will include the ability to self-supply (or to contract with third-party providers) and will enable generation, imports, exports, and demand-side resources to fully participate in the self-supply of ancillary services and in RTO West's competitive ancillary-services procurement process. RTO West will have the authority to determine the minimum required amounts of ancillary services, as well as required locations, and will require that all participants in the ancillary-services procurement process be subject to RTO West's direct or indirect operational control.<sup>57</sup> Consistent with the Commission's policy statements in its recently released working paper<sup>58</sup> and with requests from stakeholders participating in the RTO West development process, the filing

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<sup>56</sup> Section 10.3.2 of the Transmission Operating Agreement contains provisions designed to ensure that RTO West will have sufficient availability of needed ancillary services (or, more precisely, Interconnected Operations Services, which are the tools that enable RTO West to provide ancillary services) even if a workably competitive market takes time to develop.

<sup>57</sup> RTO West will have the authority to require those parties that wish to bid to provide Interconnected Operations Services to agree that the resources they bid will be subject to RTO West's direct or indirect operational control (for the period of delivery) if the bid is accepted.

<sup>58</sup> See Notice of Working Paper, issued March 15, 2002 in Docket No. RM01-12-000.

utilities have also required, in Section 10.2.1 of the Transmission Operating Agreement, that RTO West not impose punitive charges on wind generation for imbalance energy.

Through its range of tools to manage the supply and deployment of ancillary services resources – competitive procurement, self-provision, access to a real-time balancing market, and appropriate operational control with respect to ancillary services providers – RTO West will provide for the reliability needs of the RTO West transmission system and its transmission customers. The Commission should find that the proposed structure for provision of ancillary services within RTO West, as well as RTO West’s role as provider of last resort, satisfy the ancillary-services function of a regional transmission organization as set forth in 18 C.F.R. § 35.34(k)(4).

5. OASIS, Total Transmission Capability, Available Transmission Capability

As required by Order 2000, RTO West will maintain and administer its own OASIS site and will be responsible for calculation of Total Transmission Capability and Available Transmission Capability.<sup>59</sup> Also, as explained in the December 1, 2001 Status Report Concerning RTO West Development, RTO West has been working through the Steering Group to define and discuss implementing the Western Market Vision. The Western Market Vision contemplates that, in the future, there could be a single point of access for OASIS sites of all the regional transmission organizations in the West.

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<sup>59</sup> See Section 6.7.5 of the Transmission Operating Agreement. It should be noted, however, that in a financially based, accept-all-schedules system of congestion management, the notion of Available Transmission Capability does not operate as it does under the Commission’s Pro Forma Open Access Transmission Tariff. Those that wish to request transmission service from RTO West need not identify, or be constrained by, posted Available Transmission Capability. Instead, they will evaluate the financial consequences of scheduling their desired transactions, based on the availability of congestion hedges and the projected charges for any congestion clearing needed to implement their schedules.

Whether on a stand-alone basis (at least initially) or in coordination with neighboring regional transmission organizations, RTO West will provide the OASIS information and access market participants require. It will also determine, independently and on an ongoing basis, the physical transfer capabilities of its transmission system. It will assess anticipated use of physical capacity based on the outstanding congestion rights that may be exercised, then determine how much remaining capacity is available to support the issuance of additional rights. RTO West will make this information available to all market participants on a non-discriminatory basis. The Commission should find that the proposed authority of RTO West to administer a single OASIS site and to independently calculate Total Transmission Capability and Available Transmission Capability satisfies the OASIS and Total Transmission Capability and Available Transmission Capability function of a regional transmission organization as set forth in 18 C.F.R. § 35.34(k)(5).

6. Market Monitoring

In Stage 1, the filing utilities proposed objective monitoring of RTO West markets to identify design flaws, potential market power abuses, and opportunities for efficiency improvements, and to propose appropriate responsive action. The market monitor was to report on these matters to the RTO West Board of Trustees and the Commission, although in instances in which anomalous market performance required further study, the RTO West Board of Trustees was to determine when the results of the study should be reported to the Commission.

The filing utilities' approach to market monitoring has evolved considerably since the Stage 1 RTO West Proposal Filings. As described in the December 1, 2001 Status

Report Concerning RTO West Development, representatives of RTO West, California ISO, and WestConnect are working together to develop a seamless West-wide market. The filing utilities believe that a single West-wide market monitoring entity is a key component of achieving a seamless western market and are strongly committed to this effort. A market monitoring work group, formed under the auspices of the Steering Group and composed of Steering Group representatives as well as transmission customers, transmission owners, public power entities, and state public utility commissions, is working on a recommendation for a West-wide market monitoring entity. The work group has identified several areas of likely consensus, which are described in Attachment H2 to this filing.

As negotiations for a single West-wide market monitoring entity are still under way, the filing utilities submit, for purposes of this filing, the RTO West market monitoring plan contained in Attachment H1. This proposal builds on the Stage 1 market monitoring approach and is intended to facilitate the Commission's finding that, even in the absence of single West-wide market monitoring entity, the RTO West proposal fulfills Order 2000 market monitoring requirements.

Since Stage 1, the filing utilities have strengthened the provisions regarding the independence of the market monitoring unit. They have done so by (1) providing for a direct reporting relationship between the market monitoring unit and the Commission (the details of which will be developed by the Commission and the market monitoring unit) and (2) providing for the RTO West market monitoring unit to be constituted as a separate part of the RTO West staff, with the market monitoring director selected by the

RTO West Board of Trustees, and subject to procedural protections to ensure its independence.

The RTO West market monitoring unit will monitor and report on (1) the performance and efficiency of RTO West markets and services (including any impediments to competition and economic efficiency); (2) the conduct of market participants, transmission owners, and RTO West; (3) the effect of the operation and use of the RTO West transmission system on competitive conditions in the region; and (4) the adequacy and effectiveness of any market design, rule, procedure, or action that affects market competitiveness or efficiency.

The market monitoring unit will have access to all information acquired and maintained by RTO West in its regular course of business (subject to RTO West's requirements for treatment of confidential information) and will develop indices and screens to review these data and other information collected through implementation of the market monitoring plan. Should the market monitoring unit detect market performance that is inconsistent with a competitive market, the market monitoring unit will perform further analysis to determine the cause of the performance and will report its findings, as appropriate, to the Commission and the RTO West Board of Trustees. The market monitoring unit will coordinate with the RTO West staff to develop market design and rule changes and recommend them to the RTO West Board of Trustees and the Commission. Consistent with the market monitoring plan, the market monitoring unit will also respond to requests from entities, including complaints regarding RTO West's compliance with its tariff.

The RTO West market monitoring unit will not have enforcement authority, although it will monitor compliance with any Commission-imposed or RTO West-developed and Commission-approved mitigation measures. Because the market monitoring unit will report directly to the Commission, the Commission will receive information relevant to its own mitigation or enforcement responsibilities on a timely basis.

The RTO West proposal meets the market monitoring requirements set forth in 18 C.F.R. § 35.34(k)(6), and the Commission should find that the proposed market monitoring plan satisfies the market monitoring function of a regional transmission organization.

7. Planning and Expansion

RTO West will have ultimate authority to plan for the operational security and fulfillment of its transmission adequacy standards for the transmission facilities over which RTO West exercises operational control.<sup>60</sup> RTO West's transmission adequacy standards will be based on a planning assessment of the transmission facilities' physical capability to provide service to loads within RTO West, consistent with industry standards for reliability.

RTO West will carry out its planning responsibilities through an inclusive public process that encourages and supports market-based expansion decisions and provides for

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<sup>60</sup> This would include all those facilities defined as "RTO West Controlled Transmission Facilities" under the Transmission Operating Agreement. Although RTO West's authority to plan for system upgrades and expansions will be limited to the RTO West Controlled Transmission Facilities, RTO West's planning process will take a broad view of its entire transmission system, not just those facilities under its operational control. RTO West will also make readily available to the marketplace information concerning the use of and conditions affecting all the facilities over which it provides transmission service.

coordination with appropriate state authorities. RTO West will be able to arrange for transmission expansions, additions, and upgrades required to meet its transmission adequacy standards, as well as to exercise backstop authority it has under the Transmission Operating Agreement.<sup>61</sup>

The RTO West planning and expansion framework will not alter the existing relationship of the Participating Transmission Owners with siting authorities, except that it assumes that RTO West will participate, in some capacity, in siting and approval decisions. The RTO West planning framework will be sufficiently flexible to accommodate any changes necessitated by state regulatory commissions entering into multistate agreements and to coordinate with regional transmission associations' programs and activities.

Attachment I identifies the filing utilities' goals and objectives for the planning process and RTO West's minimum responsibilities. These responsibilities include developing and publishing information about the RTO West system, the use of the system, and the prices paid for those uses. RTO West planning staff will identify where there are problems with respect to transmission adequacy and will also identify facilities that are experiencing chronic, significant congestion. RTO West's planning process will be designed to result in market decisions about the need for system expansion that are rational and economically sound, taking into account non-transmission alternatives. The

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<sup>61</sup> RTO West will have the authority to arrange for necessary upgrades and expansions if (1) the RTO West Board of Trustees, in consultation with the market monitoring unit, demonstrates market failure to mitigate chronic, significant, commercial congestion; or (2) any Participating Transmission Owner fails to maintain assets sufficient to provide all transmission services necessary to fulfill obligations related to load service and pre-existing transmission agreements that were the responsibility of the Participating Transmission Owner before it joined RTO West. PGE and Avista have expressed concerns about the backstop planning authority proposal and may express those concerns in their state regulatory filings.



filing utilities also intend that RTO West's policies related to planning, expansion, and transmission access will be fuel- and technology-neutral.

RTO West will develop and present conceptual proposals to deal with current and projected congestion. RTO West will solicit interest in its own proposals, as well as in projects proposed by third parties (including Participating Transmission Owners), and will facilitate participation by interested parties. RTO West will encourage parties to offer non-wires solutions and will evaluate those solutions as part of its planning process. As noted above, RTO West will have the authority to assure that the facilities over which it exercises operational control are sufficient to meet its transmission adequacy standards.

Participating Transmission Owners will be able to propose both transmission adequacy and congestion relief projects, subject to RTO West's authority.<sup>62</sup> Any project sponsor may build a project (other than for transmission adequacy), subject to RTO West's confirmation that (1) the project sponsor has appropriately mitigated negative impacts on system transfer capability and reliability, (2) the project sponsor offered interested parties an opportunity to participate in and modify the project so as to increase its transfer capability and reliability benefits, and (3) all applicable interconnection and integration requirements are met.

The filing utilities recognize that significant additional work is needed with respect to defining what rights should be granted to project sponsors in exchange for investments in system upgrades or expansion, and that this is also the subject of an ongoing Commission process to evaluate appropriate regulatory policy. The filing

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<sup>62</sup> A Participating Transmission Owner's transmission adequacy project cannot go forward until RTO West has approved the project. RTO West may not unreasonably withhold its approval.

utilities intend to closely monitor the Commission's guidance in this area and to make it a high priority as they move ahead with further work to implement the RTO West proposal. The filing utilities also believe that a robust, collaborative planning process, consistent with the concepts identified in the RTO West planning proposal, is well suited to meet the West's immediate planning needs. As further explained in Section G.8.a below, the filing utilities believe that a "conference-committee" structure implemented through the Steering Group is the best way to coordinate West-wide expansion planning in the period before the regional transmission organizations proposed for the West become operational.

The planning proposal submitted with this filing strikes an appropriate balance among several important goals.<sup>63</sup> It recognizes the need for open, coordinated regional planning and the Commission's objective to encourage market-motivated actions for congestion relief. At the same time, it acknowledges and provides appropriate safeguards to deal with the inherent difficulties of transmission expansion and the significant consequences of inadequate transmission. The Commission should therefore find that the RTO West proposal satisfies the planning function of a regional transmission organization as set forth in 18 C.F.R. § 35.34(k)(7).

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<sup>63</sup> In its April 26, 2001 Order, the Commission acknowledged the independent nature of TransConnect, stated that there could be a sharing of planning responsibilities between RTO West and TransConnect, and asked for more specifics regarding the nature of the sharing. The Commission directed the RTO West applicants and the TransConnect applicants to explain in their Stage 2 filing how RTO West and TransConnect will share planning responsibilities. On November 13, 2001, the TransConnect parties filed a proposed pro forma planning protocol with the Commission. Some of the filing utilities protested the TransConnect filing. There are differences between the RTO West planning approach and the TransConnect pro forma protocol. The filing utilities are continuing to work on how RTO West and TransConnect will share planning responsibilities.

8. Interregional Coordination

The proposal set out below is the filing utilities' recommendation for carrying out RTO West's interregional coordination function. While most of the activities described in the proposal have been reviewed and endorsed by the California ISO and WestConnect, this proposal is submitted as the filing utilities' vision for future seams resolution work in the West.

By order of the Commission, the filing utilities filed a status report on interregional coordination on December 1, 2001. That report described in general the ongoing work related to seams resolution and set out the Western Market Vision<sup>64</sup> as the guiding document for future seams-resolution work. The December 1, 2001 report also defined the role of the Steering Group.<sup>65</sup>

The Steering Group, composed of representatives of the RTO West filing utilities, the California ISO, and WestConnect, is responsible for policy-level implementation of the Western Market Vision. These representatives have worked diligently in recent months to coordinate their activities, flesh out important details, and move forward on the basis of the Western Market Vision.

The filing utilities' view is that the Steering Group, functioning as a conference committee, is the appropriate model for future development and operation of an efficient,

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<sup>64</sup> See Exhibit A to Status Report Concerning RTO West Development, filed December 1, 2001 by Avista, Bonneville, B.C. Hydro, Idaho Power, Montana Power (now NorthWestern), PacifiCorp, and Puget.

<sup>65</sup> Although PGE, Nevada Power, and Sierra Pacific did not sign the December 1, 2001 filing that included the Western Market Vision, they are continuing to work with the other filing utilities on interregional coordination issues.

seamless western market with three RTOs in the West. The filing utilities propose that the Commission approve this model for the West.

a. The Steering Group Conference-Committee Model

The Steering Group will serve as the western forum for policy-level implementation of the seamless West-wide market and for resolving issues associated with differences in RTO practices and procedures. Using the conference-committee approach, the designated RTO representatives will bring issues affecting operation of the seamless market from the RTOs to the Steering Group. The Steering Group will discuss the issues, identify the priorities, and set schedules for resolving the issues. The Steering Group representatives will develop consensus solutions consistent with the seamless market concept in the Western Market Vision. The Steering Group will refer its consensus recommendations to the three RTOs for consideration and approval.

b. Steering Group Membership

The Steering Group membership consists of policy-level representatives from the California ISO, RTO West, and WestConnect. The filing utilities believe that the Steering Group structure should also be designed to provide for meaningful participation by state and provincial representatives.

c. Steering Group Authority

As a conference committee, the Steering Group achieves its objectives through a consensus-building process among its RTO representatives. As noted above, Steering Group recommendations are sent to each RTO's Board of Directors (or Trustees) for approval. The Steering Group will have no authority or enforcement power over the RTOs. In the first phase of the Steering Group's work, a Memorandum of Understanding

and Cooperation will define the common commitment by the three western RTOs to support and rely on the Steering Group as the western forum in which to develop consensus positions on common RTO issues.

d. Steering Group Functions

The Steering Group is currently coordinating development and implementation of the Western Market Vision. The Steering Group will provide a forum for coordinating policy issues of common interest to the RTOs and will coordinate other common activities when a coordinated effort would be beneficial.

The Steering Group will form work groups as required to perform its work. The current Steering Group has formed four work groups: the Planning Work Group, the Market Monitoring Work Group, the Price Reciprocity Work Group, and the Common Systems Interface Coordination Work Group. Work groups formed by the Steering Group are open to participation by all interested stakeholders.

Steering Group meeting notes are posted on the Steering Group's Web Site, which is currently at <http://www.rtowest.org/Stage2SSGWIMain.htm>.

Specific functions of the Steering Group are to:

1. Coordinate and manage a West-wide transmission expansion planning function for the bulk western transmission system;
2. Develop and support a single market monitoring entity for the West;
3. Support implementation of common and compatible systems and services;
4. Coordinate the development of market interface and electric business practice standards for the Western Interconnection;

5. Coordinate implementation of common or compatible market design models;
  6. Facilitate discussions among the three RTOs regarding sharing systems, procuring compatible hardware and software, and creating mutually beneficial service functions;
  7. Cooperatively develop consensus positions on interregional RTO issues; and
  8. Ensure that Steering Group work is coordinated with and supportive of state and provincial policies.
- e. Relationship Between the Steering Group and the Western Electric Coordinating Council

The filing utilities believe that the Steering Group should be the forum for facilitating resolution of interregional commercial and marketing issues in the West. Consistent with the North American Electric Reliability Council's recent policy decision, the WECC should be the forum for dealing with reliability issues in the West. The WECC's role is to coordinate development of reliability practices and standards to achieve a reliable western transmission system. The Steering Group facilitates the development of common business practices and standards to achieve a seamless and competitive western market. Because of the close relationship between reliability and market interface business practices, there should be a strong coordinating relationship between the Steering Group and the WECC.

f. Current Steering Group Activities

The Steering Group has identified a structure for organizing seams work within the Western Interconnection, including how to integrate Steering Group activities with

those of the Western Market Interface Committee (“WMIC”) and the WMIC Seams Subcommittee.<sup>66</sup> This structure was included in the materials filed with the Commission on December 1, 2001, describing the Western Market Vision. This structure includes opportunities for interested stakeholders (including representatives of state and provincial agencies and regulatory commissions) to participate actively, both through work groups formed under the auspices of the Steering Group and through the WMIC process. The Steering Group has also begun work to develop a Web site.

Through the efforts of the Common Systems Interface Coordination Work Group (created by the Steering Group), substantial work is under way to establish a common OASIS and scheduling points, evaluate sharing of backup control centers, develop common communications and data-sharing protocols, and initiate a coordinated implementation schedule for hardware and software systems. The Steering Group has sponsored significant work (including a West-wide workshop) to develop a proposal for a common market monitoring unit for RTO West, the California ISO, and WestConnect.

The Steering Group has helped to sponsor WMIC work to develop core elements of a seamless western market and explore methods for coordinating outages on transmission facilities for maintenance on a multisystem basis. With the Steering Group’s support, WMIC has already prepared a preliminary report on coordinated phase shifter operation.

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<sup>66</sup> WMIC is currently a coordinated effort of several organizations, including the Western Systems Coordinating Council, the Western Regional Transmission Association, the Southwest Regional Transmission Association, the Northwest Regional Transmission Association, the California ISO, and the Committee for Regional Electric Power Cooperation. As soon as the WECC has formed, WMIC will become a standing committee within that organization.

The filing utilities request that the Commission (1) find that the current and proposed activities and practices related to interregional coordination for RTO West as described above satisfy the interregional coordination function of a regional transmission organization as set forth in 18 C.F.R. 35.34(k)(8) and (2) approve the Western Market Vision and the Steering Group model as the mechanism to implement the Western Market Vision.

**H. Efforts To Include Participation by Public Entities.**

The October 23, 2001 Filing describes the filing utilities' efforts to design RTO West (and draft the Transmission Operating Agreement) so as to facilitate participation by public entities.<sup>67</sup> The work carried out during Stage 2 has been consistent with these previous efforts.

Bonneville has incorporated language into the Transmission Operating Agreement that allows it to immediately terminate its participation in RTO West if the Commission uses the Agreement, the activities of RTO West, or Bonneville's transactions with RTO West to assert authority over Bonneville's generation or power sales activities. Also in the Transmission Operating Agreement, Bonneville disclaims any intent to agree, by executing the Agreement, to additional jurisdiction by the Commission when its authority would otherwise be absent or limited. This is an issue of critical concern for Bonneville.

Another issue of continuing concern for Bonneville is the effectiveness of appeal rights to the courts when the Commission lacks jurisdiction to review an arbitration award. This is likely the case, for example, when disputes over rights in pre-existing Bonneville transmission contracts occur in the contract conversion process. The Federal

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<sup>67</sup> See October 23, 2000 Filing at 54-55.



Arbitration Act establishes a very restrictive judicial standard of review of arbitration awards, although some federal circuit courts have held that the courts must apply an expanded standard of review if the parties have so agreed in the contract. The lack of a meaningful avenue of appeal effectively establishes binding arbitration when the Commission lacks jurisdiction. Bonneville reserves the right to negotiate modifications to the Transmission Operating Agreement before execution if necessary to secure an adequate appellate route.

**I. Remaining Steps and Projected Timetable for RTO West Implementation.**

To show their commitment to moving forward in establishing RTO West, the filing utilities hired a firm with national experience in RTO development to create an illustrative Implementation Plan for RTO West. The purpose of the Implementation Plan is to provide a realistic outline for progressing from the current market design process involving regional utilities and other stakeholders to full implementation and operation of RTO West as a Commission-approved RTO.

The Illustrative Plan Summary is included as Attachment L to demonstrate the set of activities that must be undertaken by RTO West to become operational and describes the interrelationship of the major components and relative duration. It is included in this filing for illustrative purposes and does not necessarily reflect the actual timing or sequence of events to establish RTO West. The filing utilities are working to develop a detailed plan with target dates and proper activity sequencing. They expect to submit a detailed implementation proposal, including timelines, to the Commission within 60 days. While a number of activities will be undertaken in the near future, a commitment to all elements of such a plan must be dependent upon Bonneville's participation in RTO

West, management approval by filing utilities, state regulatory approval, and assurance of cost recovery for the expenses incurred to date and financial commitments necessary to implement this plan before RTO West secures major long-term financing.

**J. Request for Commission Action.**

The materials submitted in this filing, together with those elements of the Stage 1 RTO West Proposal Filings with respect to which the Commission has already issued a declaratory order, address all required functions and characteristics of a regional transmission organization as specified in Order 2000. On the basis of these materials and pursuant to the sequence of approvals described in Section C.2 of this filing letter, the filing utilities respectfully request that the Commission:

1. Confirm its previous determination that the proposed governance structure of RTO West satisfies the independence characteristic of a regional transmission organization as set forth in 18 C.F.R. § 35.34(j)(1) and confirm that the amendments to the RTO West Bylaws described in this filing do not alter that determination;
2. Confirm its previous determination that the proposed scope and regional configuration of RTO West satisfy the scope and regional configuration characteristic of a regional transmission organization as set forth in 18 C.F.R. § 35.34(j)(2); and
3. Issue a declaratory order pursuant to 18 C.F.R. § 385.207(a)(2), finding that:
  - a. The proposed authority of RTO West to operate the transmission facilities of the U.S. filing utilities and to provide security coordination with respect to those facilities satisfies the operational authority characteristic of a regional transmission organization as set forth in 18 C.F.R. § 35.34(j)(3);
  - b. The proposed authority of RTO West to maintain the short-term reliability of the transmission facilities it will operate satisfies the short-term reliability characteristic of a regional transmission organization as set forth in 18 C.F.R. § 35.34(j)(4);

- c. The proposed administration and design of RTO West's tariff satisfy the tariff administration and design function of a regional transmission organization as set forth in 18 C.F.R. § 35.34(k)(1), and the proposed pricing methodology for the Company Rate Period is acceptable;
- d. The proposed congestion management system for RTO West satisfies the congestion management function of a regional transmission organization as set forth in 18 C.F.R. § 35.34(k)(2);
- e. The proposed procedures by which RTO West will address parallel path flows satisfy the parallel-path-flow function of a regional transmission organization as set forth in 18 C.F.R. § 35.34(k)(3);
- f. The proposed structure for provision of ancillary services within RTO West, as well as RTO West's role as provider of last resort, satisfy the ancillary-services function of a regional transmission organization as set forth in 18 C.F.R. § 35.34(k)(4);
- g. The proposed authority of RTO West to administer a single OASIS site and to independently calculate Total Transmission Capability and Available Transmission Capacity that satisfies the OASIS and Total Transmission Capability and Available Transmission Capacity function of a regional transmission organization as set forth in 18 C.F.R. § 35.34(k)(5);
- h. The market monitoring proposal for RTO West satisfies the market monitoring function of a regional transmission organization as set forth in 18 C.F.R. § 35.34(k)(6);
- i. The planning and expansion proposal for RTO West satisfies the planning and expansion function of a regional transmission organization as set forth in 18 C.F.R. § 35.34(k)(7); and
- j. The current and proposed activities and practices related to interregional coordination for RTO West satisfy the interregional coordination function of a regional transmission organization as set forth in 18 C.F.R. § 35.34(k)(8).

## SIGNATURES

DATED the 28<sup>th</sup> day of March, 2002

AVISTA CORPORATION

\_\_\_\_\_  
/s/  
By: Randall O. Cloward  
Director, Transmission Operations

BONNEVILLE POWER  
ADMINISTRATION

\_\_\_\_\_  
/s/  
By: Mark W. Maher  
Senior Vice President  
Transmission Business Line

BRITISH COLUMBIA HYDRO AND  
POWER AUTHORITY

\_\_\_\_\_  
/s/  
By: Yakout Mansour  
Vice President, Grid Operations  
And Interutility Affairs

IDAHO POWER COMPANY

\_\_\_\_\_  
/s/  
By: James L. Baggs  
General Manager, Grid Operations  
and Planning

NORTHWESTERN ENERGY, L.L.C.

\_\_\_\_\_  
/s/  
By: Ted D. Williams  
Director, Transmission Marketing

PACIFICORP

\_\_\_\_\_  
/s/  
By: John Carr  
Managing Director, Major Projects

PORTLAND GENERAL ELECTRIC

\_\_\_\_\_  
/s/  
By: Stephen R. Hawke  
Vice President, Delivery System  
Planning and Engineering

PUGET SOUND ENERGY, INC.

\_\_\_\_\_  
/s/  
By: Kimberly Harris  
Vice President, Regulatory Affairs

NEVADA POWER COMPANY and  
SIERRA PACIFIC POWER COMPANY

\_\_\_\_\_  
/s/  
By: Carolyn Cowan  
Director, Transmission Planning  
and Business Development

**K. List of Attachments.**

Attachment A – Revised RTO West Transmission Operating Agreement

Attachment B – Summary of Key Provisions of RTO West Transmission Operating Agreement

Attachment C – Amended Redlined Draft Bylaws of RTO West

Attachment D – Lists of Proposed RTO West Transmission Facilities

Attachment E1 – Description of RTO West Pricing Proposal

Attachment E2 – Illustrative Company Rate Calculation Spreadsheets

Attachment F – Description of RTO West Congestion Management Proposal

Attachment G – Description of RTO West Ancillary Services Proposal

Attachment H1 – Description of RTO West Market Monitoring Proposal

Attachment H2 – Areas of Likely Consensus Related to Work on a Single West-Wide Market Monitoring Entity

Attachment I – Description of RTO West Planning and Expansion Proposal

Attachments J1 through J6 – Informational Draft of Scheduling Coordinator Agreement and Background Material

Attachment K – Informational Draft of Agreement Among RTO West and Transmission Owners To Use Paying Agent

Attachment L – Illustrative Implementation Plan Summary